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SUBJECT: PRICE CONTROLS IN THAILAND

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1.(SBU) Summary. With inflation (CPI) running at about 6 percent and interest rates, energy prices, commodity prices and labor costs all near multi-year highs, the margins of many companies operating in Thailand are being squeezed. This situation is exacerbated for some firms due to the RTG's ability to control prices for a broad range of goods. The general effort to keep prices for most basic consumer goods (rice, soap, milk) down can be seen as a part of the Thaksin regime's overall populist approach combined with a slowly weakening economic situation due in large part to ongoing political uncertainty. Although even the Department of Internal Trade acknowledges that proper Competition Law should render price controls unnecessary, the political benefits the current law brings make its termination unlikely anytime soon. End Summary.

The Committee Can Set Prices

2.(U) Under the 1999 "Act Relating to Price of Merchandise and Service, B.E. 2542," a government committee headed by the Minister of Commerce has the authority to "Prescribe the purchase price or distribution price of merchandise or service...", "Prescribe maximum profit per unit..." and set the terms and conditions - including maximum permissible volumes - of any good or service in the Kingdom. The law was amended in 1999 with the advent of a Competition Law and was meant to be phased out. However, with several critical aspects of Competition Law still undefined (such as the measure for market dominance), and the political utility of the 1999 Act, the old law continues in place with no expiration under current consideration by the RTG.

3.(U) In practice, the Department of Internal Trade within the Ministry of Commerce administers this law and interacts with the affected companies although only the "Committee on Price of Merchandise and Service" make the final decision on what products to add or remove from price controls. The Committee is comprised of the Minister and Permanent Secretary of Commerce, the Secretary General of the Board of Investment and between four and eight "qualified persons" appointed by the Council of Ministers of whom not less than half are "not to be political civil servants, persons who are in political posts, Directors or persons responsible for the administration of political parties."

The Price Control List

4.(U) As of May 10, there are 35 items formally listed as under

price control:

Liquefied petroleum gas
Paddy/uncooked rice
Compact diskette/recording device
Compact diskette copy machine
Student uniform
Milk powder/fresh milk
Sugar
Edible or inedible oil from vegetable and animal
Fuel
Fertilizer
Pesticide
Pharmaceuticals
Motorcycle/passenger car/truck
Animal feed
Steel
Jewelry
IP rights management service
IPR permission for trade
Corrugated paper
Typing and written paper
Kraft paper
Imitation condensed cream, condensed milk, skimmed milk
Shampoo
Liquid detergent
Cement
Powdered detergent
Dishwasher detergent
Sanitary napkin
Plastic pellet
Motorcycle/bicycle tire
Fiber paper
Soap
Electricity wire
Pig and pork
Processed (canned) food

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5.(SBU) While these are the products with explicit price controls, effectively any producer of consumer products is prohibited from raising prices without first notifying the Committee of their intention to do so. While explicit permission is not required in these cases - manufacturers are merely asked to "cooperate" with the Department of Internal Trade - producers tend not to go forward with price increases without at least a verbal approval because of concern that they might later be instructed to roll the prices back or see their product added to the control list. We understand that soft drink makers sought for five years to increase their prices by 1Baht (2.6 cents) but were only granted specific authorization to do so in May.

Listing Criteria

6.(SBU) The Director of the Internal Trade Department told us that there are six criteria considered by the Committee when determining whether price should be controlled. These are 1) whether there is sufficient competition in the market for the product, 2) whether the consumer good is "necessary for living", 3) whether there is a record of "bad behavior" by a specific company or industry category, 4) whether a product is "significant to the economy" e.g. cement, steel, 5) whether a product is significant for agriculture e.g. fertilizer and pesticide, and 6) to conform with government policy.

7.(SBU) The prices are controlled at the wholesale level except for sugar where the controls are exercised directly at retail. In addition, the terms and conditions under which manufacturers and service providers offer control-listed product can not be altered without Committee authorization. Companies have tried to get around the controls by changing the portion or sizing of their products or introducing "new/improved" aspects to command a higher price. The Department of Internal Trade has caught on to this and threatened punitive actions against those seeking to circumvent price controls

in this manner. The law states that violators are subject to a maximum penalty of five years imprisonment and a Bt100,000 (US\$2600) fine.

Good Politics Vs. Good Economics

8.(SBU) Several companies with whom we have spoken have complained about the "populist" nature of the law's application and one surmised that more products seem to be added to the control list in the run-up to elections. Another firm said that they were considering expanding another of their Southeast Asian plants instead of their Thai operations because of the margin squeeze they are experiencing in Thailand. However, one major food processor said that although his margins might be under pressure in some product categories, he could sometimes make up the lost profits by expanding margins in other, less sensitive, categories. A Thai cement company, while complaining about the price controls, noted that Thai cement prices are still higher than what they earn on their exports because of high Thai tariffs on imported product. Note: We are not aware of any companies that have divested their Thai interests due to the enforcement of the 1999 Act. As is so typical here, there is usually a "Thai way" to work things out. End Note.

A Small Victory for Producers

9.(SBU) In a sign that inflationary and other cost pressures are finally proving too much, on July 14 the Commerce Ministry announced that it will consider allowing two or three consumer products per month to increase their prices. The Ministry reports that 60 companies in 23 product categories have sought permission to increase prices. News reports have failed to note that companies have always been able to request price relief but must supply data regarding their costs of raw materials, production, packaging, general operations, efficiency and margins. A response is promised by the Department of Internal Trade within thirty days of receiving all the data the Department determines it requires. The Ministry recently advised that alkaline batteries will be the first product to receive approval for a price rise under the new policy because they first sought permission three years ago, not detailing the specific price pressures which presumably brought about the Committee decision.

10.(SBU) Comment: One third of the 300 items in the CPI basket of goods is on a Department of Internal Trade "price watch list" in addition to a host of services. The opportunity for playing political favorites using the extremely expansive terms of the

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Pricing Law has not gone unexploited. There is a reason that pork prices are controlled but that chicken (the major producer of which is politically close to the government) and beef (a program with considerable royal support) are not. An example of the potential price distortions from the law are seen in consumers converting their vehicles to run on (controlled) LPG fuel rather than more logical alternatives.

11.(SBU) Further evidence of the largely political purposes of price controls was found when we asked the Department of Internal Trade if there was a study of the influence their efforts had on inflation. No study has been done and the officials could only guess about how their work affects macroeconomic conditions. For the first half of 2006 the Producer Price Index for Mining and Fuel products is up 25.3 percent, for Agricultural goods 21.7 percent but for Manufactured food and beverage products the increase was only 4.3 percent. We believe the Bank of Thailand's July 19 decision to not raise its benchmark interest rate and the Committee's decision to be more lenient on increases for listed products are indicative of the RTG's growing concern with the economy's slowing trend and need to provide some relief to the business sector.

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